

SB369 Sales Tax Legislation – Local Impacts

Background

- SB 369 was introduced late last month and is sponsored by Senate Majority Leader Harry Brown of Jacksonville.
- As filed, the legislation would change how the state distributes a portion of sales taxes collected when people buy clothing, building materials and other goods. The legislation would be phased in over three years.
- Instead of basing each county's share largely on where sales occur – the current system – the bill would change to a population-based distribution. Shopping destinations such as New Hanover County and Wilmington would get less revenue, while rural counties would see big gains.
- New Hanover County is unique in that sales tax revenue is currently distributed based on how much property tax revenue towns generate instead of a population basis, but Wilmington would still see reduced funding under this legislation because it is a regional shopping area and tourist destination.
- Wilmington is heavily reliant on the property taxes homeowners pay because we don't have a large commercial base. The only other significant source of funding is sales taxes and state funds/fees. Therefore, to make up significant revenue losses from sales taxes, property taxes and/or fees would have to increase to maintain the same level of services.

The numbers*

<u>Government</u>	<u>Annual funding reductions when fully implemented in 2019</u>
New Hanover County	\$13.7 million
Carolina Beach	\$498,000 (-33%)
Kure Beach	\$454,500 (-55.6%)
Wrightsville Beach	\$834,900 (-66%)
Wilmington	\$3.4 million (-15%)

*Numbers preliminary, based on figures from NCLM, NCACC

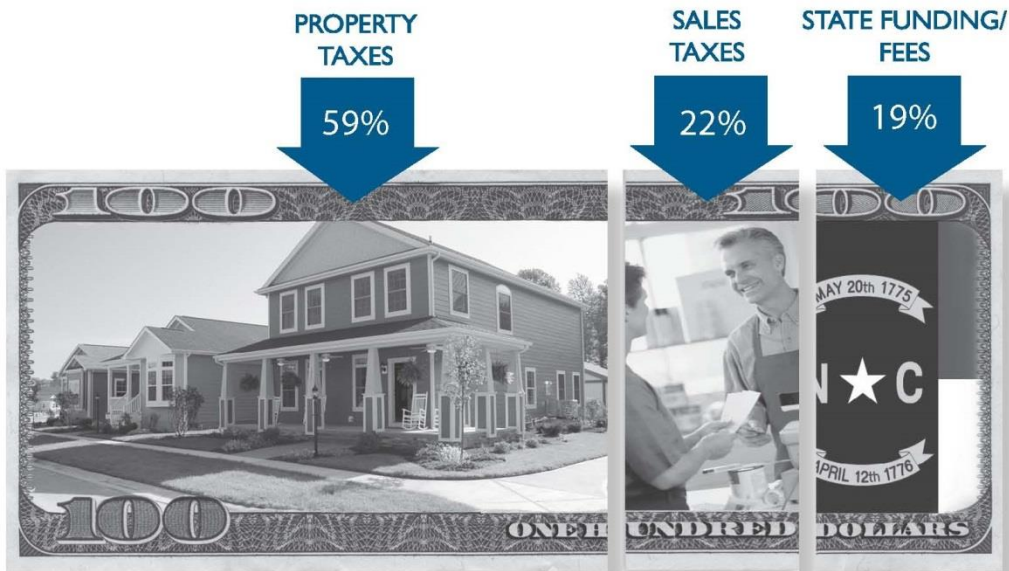
The impact in Wilmington

- If SB 369 is enacted this year, Wilmington's reduction would be almost \$2.5 million.
- This is on top of the \$2.3 million loss of privilege license tax funding paid by businesses that was eliminated by the General Assembly last year.
- Put those two together and that represents a property tax increase of almost 4 cents just to maintain Wilmington's current services. That does not include potential property tax increases by NHC to cover their losses, which Wilmington property owners would also have to pay.

The impact across the state

- All county and city governments would lose control of their fiscal stability if local sales taxes become state revenues because the General Assembly would control where that money goes each year.
- Property taxes for residents in cities, especially coastal/tourism areas such as Wilmington, would have to be increased significantly to maintain services because the state would be taking money generated in those cities and giving it to rural areas that don't have any of the associated services and infrastructure costs that it takes to maintain those shopping centers and tourist destinations used by rural residents.
- This includes services such as police and fire protection, as well as infrastructure funding for roads and sidewalks.
- If this legislation passes, cities would be discouraged from making infrastructure improvements that attracts private developments because of reduced funding and a lack of return on investment.

City of Wilmington: Where the money comes from



Note: Some Wilmington estimates in this document based on preliminary calculations from the city's Finance Dept.